

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name CITY OF THE VILLAGE OF DOUGLAS	County ALLEGAN
Fiscal Year End 6/30/06	Opinion Date 10/5/06	Date Audit Report Submitted to State 12/1/06	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

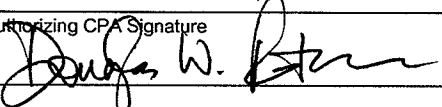
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☒ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) FERRIS, BUSSCHER & ZWIERS, P.C.		Telephone Number (616) 392-8534	
Street Address 675 E. 16TH STREET, SUITE 100		City HOLLAND	State MI
			Zip 49423
Authorizing CPA Signature 		Printed Name DOUGLAS W. ROTMAN	License Number 1101019033

CITY OF THE VILLAGE OF DOUGLAS

FINANCIAL STATEMENTS

JUNE 30, 2006

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October 5, 2006

City Council
Douglas, Michigan

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying basic financial statements of the City of the Village of Douglas, as of and for the year ended June 30, 2006, as listed in the index. These basic financial statements are the responsibility of the City of the Village of Douglas' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the basic financial statements referred to above present fairly, in all material respects, the financial position of the City of the Village of Douglas as of June 30, 2006, and the changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 5, 2006, on our consideration of the City of the Village of Douglas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. Management has elected to omit the management's discussion and analysis from the required supplementary information. We have applied certain limited procedures, which

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consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of the Village of Douglas' basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the City of the Village of Douglas. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Ferris, Busscher & Zwiars, P.C.

FERRIS, BUSSCHER & ZWIERS, P.C.
Certified Public Accountants
Holland, Michigan

BASIC FINANCIAL STATEMENTS

CITY OF THE VILLAGE OF DOUGLAS
STATEMENT OF NET ASSETS
JUNE 30, 2006

	<u>Primary Government</u>
	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 1,495,146
Receivables, net	867,852
Prepays and other assets	5,724
Capital assets	
Land	50,000
Other capital assets, net of depreciation	<u>2,892,231</u>
TOTAL ASSETS	<u>\$ 5,310,953</u>
LIABILITIES	
Accounts payable and accrued expenses	\$ 754,472
Long-term liabilities	
Due within one year	53,950
Due in more than one year	<u>542,006</u>
TOTAL LIABILITIES	<u>\$ 1,350,428</u>
NET ASSETS	
Invested in capital assets, net of related debt	\$ 2,346,275
Restricted for	
Major Streets	61,038
General Highway	468,318
Unrestricted	<u>1,084,894</u>
TOTAL NET ASSETS	<u>\$ 3,960,525</u>

See notes to financial statements

CITY OF THE VILLAGE OF DOUGLAS
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2006

FUNCTIONS/PROGRAMS			<u>Program Revenues</u>
PRIMARY GOVERNMENT	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>
Governmental activities			
Legislative	\$ 19,760	\$ -	\$ -
General government	450,079	14,962	-
Public safety	1,001,950	426,911	8,439
Public works	473,202	314,753	126,825
Recreation and cultural	143,294	14,655	15,173
Interest on long-term debt	<u>18,274</u>	<u>-</u>	<u>-</u>
Total governmental activities	<u>\$ 2,106,559</u>	<u>\$ 771,281</u>	<u>\$ 150,437</u>
TOTAL PRIMARY GOVERNMENT	<u>\$ 2,106,559</u>	<u>\$ 771,281</u>	<u>\$ 150,437</u>
General revenues			
Taxes			
Property taxes, levied for general purposes			
Property taxes, levied for roads			
State shared revenues			
Unrestricted investment income			
Miscellaneous			
Total general revenues			
CHANGE IN NET ASSETS			
NET ASSETS - JULY 1, 2005			
NET ASSETS - JUNE 30, 2006			

See notes to financial statements

<u>Capital Grants and Contributions</u>	<u>Net (Expense) Revenue Governmental Activities</u>
\$ -	\$ (19,760)
-	(435,117)
-	(566,600)
871,894	840,270
-	(113,466)
<u>-</u>	<u>(18,274)</u>
<u>\$ 871,894</u>	<u>\$ (312,947)</u>
<u>\$ 871,894</u>	<u>\$ (312,947)</u>

\$ 1,166,885
 291,961
 105,903
 86,579
60,376

\$ 1,711,704

\$ 1,398,757

2,561,768

\$ 3,960,525

CITY OF THE VILLAGE OF DOUGLAS
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	<u>General</u>	<u>General Highway</u>	<u>Water and Sewer Revolving</u>
ASSETS			
Cash and cash equivalents	\$ 699,894	\$ 611,167	\$ 980
Receivables, net	5,228	940	45,664
Receivables from other governments	120,027	-	166,957
Due from other funds	15,000	-	-
Prepaid expenditures	<u>2,500</u>	<u>-</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 842,649</u>	<u>\$ 612,107</u>	<u>\$ 213,601</u>
LIABILITIES			
Accounts payable and accrued expenses	\$ 105,829	\$ 91,769	\$ 16,968
Due to other funds	-	-	94,138
Deferred revenue	<u>-</u>	<u>-</u>	<u>45,664</u>
TOTAL LIABILITIES	<u>\$ 105,829</u>	<u>\$ 91,769</u>	<u>\$ 156,770</u>
FUND BALANCES			
Unreserved - reported in:			
General Fund	\$ 736,820	\$ -	\$ -
Special Revenue Funds	-	520,338	56,831
Capital Project Fund	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL FUND BALANCES	<u>\$ 736,820</u>	<u>\$ 520,338</u>	<u>\$ 56,831</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 842,649</u>	<u>\$ 612,107</u>	<u>\$ 213,601</u>

See notes to financial statements

Center Street	Non-Major Funds	Total Governmental Funds
\$ 7,781	\$ 146,688	\$ 1,466,510
13,261	-	65,093
293,783	19,295	600,062
79,138	-	94,138
<u>-</u>	<u>3,224</u>	<u>5,724</u>
<u>\$ 393,963</u>	<u>\$ 169,207</u>	<u>\$ 2,231,527</u>

\$ 439,329	\$ 20,705	\$ 674,600
-	-	94,138
<u>13,261</u>	<u>75</u>	<u>59,000</u>
<u>\$ 452,590</u>	<u>\$ 20,780</u>	<u>\$ 827,738</u>

\$ -	\$ -	\$ 736,820
-	148,427	725,596
<u>(58,627)</u>	<u>-</u>	<u>(58,627)</u>
<u>\$ (58,627)</u>	<u>\$ 148,427</u>	<u>\$ 1,403,789</u>
<u>\$ 393,963</u>	<u>\$ 169,207</u>	<u>\$ 2,231,527</u>

CITY OF THE VILLAGE OF DOUGLAS
RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET
FOR GOVERNMENTAL FUNDS TO NET ASSETS OF
GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET ASSETS
JUNE 30, 2006

Fund balances - Total governmental funds \$ 1,403,789

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add - Capital assets	3,623,242
Deduct - Accumulated depreciation	(681,011)

Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Deduct - Installment notes payable	(595,956)
Deduct - Compensated absences	(75,290)
Deduct - Accrued interest on long-term debt	(2,152)

An internal service fund is used by management to charge the costs of certain equipment usage to individual governmental funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.

Add - Net assets from governmental activities in the internal service fund	26,281
--	--------

Tax, special assessment, or other revenues unearned or unavailable in < 60 days for expenditures reported in fund statements.

Add - Receivables	202,697
Add - Deferred revenue	<u>58,925</u>

Net assets of governmental activities

\$ 3,960,525

See notes to financial statements

CITY OF THE VILLAGE OF DOUGLAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2006

	<u>General</u>	<u>General Highway</u>	<u>Water and Sewer Revolving</u>
REVENUES			
Taxes and special assessments	\$ 1,166,885	\$ 291,961	\$ -
Licenses and permits	123,742	-	-
State shared revenues	111,229	-	-
Contributions from local units	421,494	-	-
Grant revenue	8,439	-	-
Charges for services	139,086	-	96,465
Fines	5,637	-	-
Interest	35,687	27,318	12,021
Reimbursements	1,668	19,439	15,865
Other revenue	<u>443</u>	<u>-</u>	<u>-</u>
TOTAL REVENUES	<u>\$ 2,014,310</u>	<u>\$ 338,718</u>	<u>\$ 124,351</u>
EXPENDITURES			
Current operating			
Legislative	\$ 19,760	\$ -	\$ -
General government	418,868	-	-
Public safety	973,264	-	-
Public works	79,301	6,232	36,350
Recreation and cultural	94,443	-	-
Debt service			
Principal	48,885	-	-
Interest and other charges	18,113	-	-
Capital outlay	<u>17,404</u>	<u>-</u>	<u>325,421</u>
TOTAL EXPENDITURES	<u>\$ 1,670,038</u>	<u>\$ 6,232</u>	<u>\$ 361,771</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>\$ 344,272</u>	<u>\$ 332,486</u>	<u>\$ (237,420)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	\$ 3,639	\$ -	\$ -
Transfers out	<u>(25,865)</u>	<u>(435,000)</u>	<u>-</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>\$ (22,226)</u>	<u>\$ (435,000)</u>	<u>\$ -</u>
NET CHANGE IN FUND BALANCES	<u>\$ 322,046</u>	<u>\$ (102,514)</u>	<u>\$ (237,420)</u>
FUND BALANCES - JULY 1, 2005	<u>414,774</u>	<u>622,852</u>	<u>294,251</u>
FUND BALANCES - JUNE 30, 2006	<u><u>\$ 736,820</u></u>	<u><u>\$ 520,338</u></u>	<u><u>\$ 56,831</u></u>

See notes to financial statements

Center Street	Non-Major Funds	Total Governmental Funds
\$ -	\$ -	\$ 1,458,846
-	-	123,742
-	126,824	238,053
-	-	421,494
620,000	-	628,439
-	12,955	248,506
-	-	5,637
2,177	8,961	86,164
-	-	36,972
-	15,173	15,616
<u>\$ 622,177</u>	<u>\$ 163,913</u>	<u>\$ 3,263,469</u>
\$ -	\$ -	\$ 19,760
-	-	418,868
-	-	973,264
49,678	274,168	445,729
-	39,724	134,167
-	-	48,885
-	-	18,113
<u>1,075,588</u>	<u>12,252</u>	<u>1,430,665</u>
<u>\$ 1,125,266</u>	<u>\$ 326,144</u>	<u>\$ 3,489,451</u>
<u>\$ (503,089)</u>	<u>\$ (162,231)</u>	<u>\$ (225,982)</u>
\$ 375,000	\$ 86,534	\$ 465,173
<u>-</u>	<u>(30,173)</u>	<u>(491,038)</u>
<u>\$ 375,000</u>	<u>\$ 56,361</u>	<u>\$ (25,865)</u>
\$ (128,089)	\$ (105,870)	\$ (251,847)
<u>69,462</u>	<u>254,297</u>	<u>1,655,636</u>
<u>\$ (58,627)</u>	<u>\$ 148,427</u>	<u>\$ 1,403,789</u>

CITY OF THE VILLAGE OF DOUGLAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO
THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2006

Net change in fund balances - Total governmental funds \$ (251,847)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add - Capital outlay	1,430,665
Deduct - Depreciation expense	(108,229)

Debt proceeds provide current financial resources to governmental funds in the period issued, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of debt principal is an expenditure in the governmental fund, but the repayment reduces long-term liabilities in the statement of net assets.

Add - Principal payments on long-term liabilities	48,885
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An internal service fund is used by management to change the costs of certain equipment usage to individual governmental funds. The net revenue (expense) of the fund attributable to those funds is reported within governmental activities.

Add - Gain from governmental activities in the internal service fund	26,281
--	--------

Tax, special assessment, or other revenues unearned or unavailable in < 60 days for expenditures reported in fund statements.	260,872
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Deduct - Change in accrued compensated absences	(7,709)
Deduct - Change in accrued interest on long-term debt	(161)

Change in net assets of governmental activities	<u>\$ 1,398,757</u>
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See notes to financial statements

CITY OF THE VILLAGE OF DOUGLAS
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2006

Internal
Service
Fund

CURRENT ASSETS

Cash and cash equivalents

\$ 26,281

NET ASSETS

Unrestricted

\$ 26,281

See notes to financial statements

CITY OF THE VILLAGE OF DOUGLAS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2006

	Internal Service <u>Fund</u>
NONOPERATING REVENUES	
Interest income	\$ 416
OPERATING TRANSFER IN	<u>25,865</u>
CHANGE IN NET ASSETS	\$ 26,281
NET ASSETS - JULY 1, 2005	<u>-</u>
NET ASSETS - JUNE 30, 2006	<u>\$ 26,281</u>

See notes to financial statements

CITY OF THE VILLAGE OF DOUGLAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2006

	Internal Service <u>Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Internal activity	
Receipts from other funds	\$ <u>25,865</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and dividends	\$ <u>416</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	\$ 26,281
CASH AND CASH EQUIVALENTS - JULY 1, 2005	<u>-</u>
CASH AND CASH EQUIVALENTS - JUNE 30, 2006	<u>\$ 26,281</u>

See notes to financial statements

CITY OF THE VILLAGE OF DOUGLAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City.

REPORTING ENTITY

In December 2004, the Village split from Saugatuck Township and adopted a City Charter. The City is still in negotiations with Saugatuck Township regarding the split of assets between the two entities. The City is governed by an elected council. The accompanying financial statements present the City's activities for which the City is considered to be financially accountable. There are no entities which have significant operation or financial relationships with the City which should be included as component units.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT
PRESENTATION

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

CITY OF THE VILLAGE OF DOUGLAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become susceptible to accrual, that is, when they become both measurable and available to finance expenditures of the fiscal period. Property taxes, state shared revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

The City's property tax is levied on each July 1st on the taxable valuation of property (as defined by State statutes) located in the City of the Village of Douglas as of the preceding December 31st.

The City's 2005 ad valorem tax is levied and collectible on July 1, 2005, and it is the City's policy to recognize revenue from the current tax levy in the current year when the proceeds of this levy are budgeted and made "available" for the financing of operations.

The 2005 taxable valuation of the City totaled \$103,460,142, on which ad valorem taxes levied consisted of 11.2004 mills for the City's operating purposes and 1.8814 mills for roads raising \$1,165,025 for operating and \$195,692 for roads. These amounts are recognized in the respective General and Special Revenue Fund financial statements as tax revenue.

The City reports the following major governmental funds:

The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The General Highway Fund accounts for the road tax resources and all non-state funded road construction projects.

The Water and Sewer Revolving Fund accounts for water and sewer connection fees for water and sewer improvements paid for by the City.

The Center Street Fund accounts for resources specifically accumulated for the Center Street capital improvements.

CITY OF THE VILLAGE OF DOUGLAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Additionally, the City reports the following fund types:

Special Revenue Funds account for resources specifically accumulated for roads, launch ramps, and various cultural activities.

Internal Service Fund accounts for major machinery and equipment purchases and maintenance provided to other departments of the government on a cost reimbursement basis. The fund was created in the fiscal year ended June 30, 2006 and no reimbursement activity had occurred during the year.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected not to follow private-sector standards issued after November 30, 1989 for its business-type activities.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and conditions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services to other funds for equipment usage. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

Bank Deposits and Investments – Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables – In general, outstanding balances between funds are reported as “due to/from other funds.” Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as “advances to/from other funds.” Any residual balances outstanding between the governmental activities are reported in the government-wide financial statements as “internal balances.”

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each July 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

Prepaid Items – Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

CITY OF THE VILLAGE OF DOUGLAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets – Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in governmental activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$3,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Buildings	40 years
Building improvements	10 to 15 years
Land improvements	10 years
Water and sewer lines	40 years
Roads	20 years
Other infrastructure	10 to 40 years
Vehicles	3 to 10 years
Machinery and equipment	3 to 10 years

Compensated Absences (Vacation and Sick Leave) – It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vacation and sick pay is accrued when incurred in the government-wide statement at year-end.

Deferred Revenue – Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period or for resources that have been received, but not yet earned.

Long-Term Obligations – In the government-wide financial statements and in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Restricted Net Assets – The City's policy is to first apply restricted resources when an expense is incurred for which restricted and unrestricted net assets are available.

CITY OF THE VILLAGE OF DOUGLAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information – Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund, function, department and line items. The legal level of budgetary control adopted by the City is the department level.

Excess of Expenditures Over Appropriations in Budgeted Funds – During the year, the City of the Village of Douglas incurred expenditures in certain budgeted funds which were in excess of the amounts appropriated, as follows:

<u>Budget Item</u>	<u>Budget Appropriation</u>	<u>Actual Expenditure</u>	<u>Variance (Unfavorable)</u>
General Fund:			
General government			
Clerk-treasurer	\$ 160,156	\$ 165,872	\$ (5,716)
Assessor	25,500	27,225	(1,725)
Legal and accounting	40,000	50,375	(10,375)
Contingencies	1,025	1,125	(100)
Recreational and cultural			
Parks and recreation	76,300	93,518	(17,218)
Capital outlay	10,000	17,404	(7,404)
Special Revenue Funds:			
Water and Sewer Revolving			
Public Works	-	36,350	(36,350)
Capital outlay	-	325,421	(325,421)
Major streets			
Highways and streets – general	31,250	60,743	(29,493)

Fund Deficits – The City has an accumulated fund balance deficit in the following individual fund:

Center Street – The City has not filed a deficit elimination plan with the Statement of Michigan within ninety days of the fiscal year end.

Local City Charter Discrepancy – The City's charter stipulates that the City's property taxes be levied on July 1 of each fiscal year. During the City's fiscal year, which was the first tax levy administered under the new City charter, the City allocated their millages between the July 1 and December 1 tax levies. This resulted in the late tax collection of the City's property taxes. The City did not, however, exceed their approved millages between the two tax levies and complied with requisite truth in taxation notices and public hearings.

NOTE 3 – DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Sections 129.91, authorizes the City to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The local unit is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal

CITY OF THE VILLAGE OF DOUGLAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)

agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivision which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The City of the Village of Douglas Council has designated one bank for the deposit of City funds. The Council has adopted a deposit and investment policy in accordance with Public Act 196 of 1997.

At year-end, the City's deposits and investments were reported in the basic financial statements in the following categories:

	Governmental <u>Activities</u>
Cash and cash equivalents	<u>\$1,495,146</u>

The breakdown between deposits and investments is as follows:

	Governmental <u>Activities</u>
Bank deposits (checking and savings accounts)	<u>\$1,495,146</u>

The bank balance of the primary government's deposits is \$1,497,615, of which \$100,000 is covered by federal depository insurance and \$1,397,615 is uninsured and uncollateralized.

NOTE 4 – RECEIVABLES

Receivables as of year-end for the City's individual major and non-major funds in the aggregate, including the applicable allowances for uncollectible accounts are as follows:

	General <u>Fund</u>	General <u>Highway</u>	Water and Sewer <u>Revolving</u>	Center <u>Street</u>	Non-Major and Other <u>Funds</u>	<u>Total</u>
Taxes	\$ 1,535	\$ 940	\$ -	\$ -	\$ -	\$ 2,475
Connection receivables	-	-	35,674	-	-	35,674
Special Assessments	-	-	9,990	13,261	-	23,251
Intergovernmental	120,027	-	166,957	293,783	19,295	600,062
Interfund	15,000	-	-	79,138	-	94,138
Other	3,693	-	-	-	-	3,693
Less allowance for uncollectibles	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net receivables	<u>\$ 140,255</u>	<u>\$ 940</u>	<u>\$ 212,621</u>	<u>\$ 386,182</u>	<u>\$19,295</u>	<u>\$ 759,293</u>

CITY OF THE VILLAGE OF DOUGLAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 4 – RECEIVABLES (CONTINUED)

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Connection fees	\$35,674	\$ -
Special assessments	23,251	-
Fees	<u>-</u>	<u>75</u>
Total	<u>\$58,925</u>	<u>\$ 75</u>

NOTE 5 – CAPITAL ASSETS

Capital asset activity of the primary government for the current year was as follows:

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated				
Land	\$ 50,000	\$ -	\$ -	\$ 50,000
Construction in progress	<u>30,456</u>	<u>-</u>	<u>(30,456)</u>	<u>-</u>
Subtotal	<u>\$ 80,456</u>	<u>\$ -</u>	<u>\$ (30,456)</u>	<u>\$ 50,000</u>
Capital assets being depreciated				
Buildings	\$ 595,299	\$ 190,000	\$ -	\$ 785,299
Improvements other than buildings	109,144	389,372	-	498,516
Machinery and equipment	392,382	-	-	392,382
Infrastructure	<u>825,296</u>	<u>1,071,749</u>	<u>-</u>	<u>1,897,045</u>
Subtotal	<u>\$1,922,121</u>	<u>\$1,651,121</u>	<u>\$ -</u>	<u>\$3,573,242</u>
Less accumulated depreciation for				
Buildings	\$ 167,649	\$ 35,449	\$ -	\$ 203,098
Improvements other than buildings	60,962	6,055	-	67,017
Machinery and equipment	333,874	25,763	-	359,637
Infrastructure	<u>10,297</u>	<u>40,962</u>	<u>-</u>	<u>51,259</u>
Subtotal	<u>\$ 572,782</u>	<u>\$ 108,229</u>	<u>\$ -</u>	<u>\$ 681,011</u>
Net capital assets being depreciated	<u>\$1,349,339</u>	<u>\$1,542,892</u>	<u>\$ -</u>	<u>\$2,892,231</u>
Total capital assets – net of depreciation	<u>\$1,429,795</u>	<u>\$1,542,892</u>	<u>\$ (30,456)</u>	<u>\$2,942,231</u>

CITY OF THE VILLAGE OF DOUGLAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 5 – CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities	
General government	\$ 34,629
Public works	46,912
Recreation and cultural	9,126
Public safety	<u>17,562</u>
Total governmental activities	<u>\$108,229</u>

Construction Activities

At year-end the City's commitments with contractors are as follows:

	<u>Spent to Date</u>	<u>Remaining Commitment</u>
Sidewalk project	\$ <u>-</u>	<u>\$35,074</u>

NOTE 6 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances is as follows:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
Due to/from other funds		
General fund	Water and Sewer Revolving	\$15,000
Center Street	Water and Sewer Revolving	<u>79,138</u>
Total		<u>\$94,138</u>
Interfund transfers		
	<u>Operating Transfer In</u>	<u>Operating Transfer Out</u>
Major funds:		
General	\$ 3,639	\$ (25,865)
General Highway	-	(435,000)
Center Street	375,000	-
Non-major funds:		
Major streets	-	(26,534)
Local streets	86,534	-
Douglas Historic Preservation	-	(3,639)
Internal service fund	<u>25,865</u>	<u>-</u>
	<u>\$ 491,038</u>	<u>\$(491,038)</u>

CITY OF THE VILLAGE OF DOUGLAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 7 – LONG-TERM DEBT

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. County contractual agreements and installment purchase agreements are also general obligations of the City. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the City is obligated to provide resources to cover the deficiency until other resources (such as tax, sale proceeds or a re-assessment of the district) are received. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

Bond and contractual obligation activity can be summarized as follows:

	<u>Interest Rate</u>	<u>Principal Matures</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Installment purchase agreements							
Chemical Bank	3.50%	7/4/17	\$ 421,189	\$ -	\$(28,326)	\$ 392,863	\$29,451
Chemical Bank	5.14%	3/1/21	-	190,000	(2,570)	187,430	8,836
Macatawa Bank	10.58%	8/7/06	3,073	-	(3,073)	-	-
Ford Motor Company	5.00%	9/30/06	<u>30,579</u>	<u>-</u>	<u>(14,916)</u>	<u>15,663</u>	<u>15,663</u>
Total governmental activities			<u>\$ 454,841</u>	<u>\$ 190,000</u>	<u>\$(48,885)</u>	<u>\$ 595,956</u>	<u>\$ 53,950</u>

Annual debt service requirements to maturity for the above obligations are as follows:

<u>Year End June 30,</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2007	\$ 53,950	\$ 23,491
2008	39,800	21,196
2009	41,374	19,622
2010	43,013	17,983
2011	44,719	16,277
2012-2016	251,733	53,247
2017-2021	<u>121,367</u>	<u>10,373</u>
Total	<u>\$595,956</u>	<u>\$162,189</u>

NOTE 8 – RISK MANAGEMENT

The City is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance to cover all risks of losses. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

CITY OF THE VILLAGE OF DOUGLAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 9 – CONTINGENT LIABILITIES

The City is involved in a lawsuit with a former employee regarding his discharge from the City. The lawsuit is pending at June 30, 2006, and management cannot speculate the outcome. If the employee prevails, the administrative law judge may order his reinstatement with back pay of approximately \$40,000.

NOTE 10 – EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS

Defined Benefit Pension Plan (Michigan Municipal Employees' Retirement System)

Plan Description

The City's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The City participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board. The MERS Retirement Board, establishes and amends the benefits provisions of the participants in MERS. MERS issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement Systems of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

Funding Policy

The City is required to contribute at an actuarially determined rate; the rate as of June 30, 2006 is approximately 8.41 – 18.86% of annual covered payroll. Employees are currently not required to contribute to the Plan. The contribution requirements of the City are established and may be amended by the Retirement Board of MERS. The contribution requirements of plan members, if any, are established and may be amended by the City, depending on the MERS contribution program adopted by the City.

Annual Pension Cost

For the year ended June 30, 2006, the City's annual pension cost of \$73,298 for MERS was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2004 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions includes (a) a rate of return on the investment of present and future assets of 8%, (b) projected salary increases of 4.5% per year compounded annually, attributable to seniority/merit. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect market value. The City's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis over 30 years.

CITY OF THE VILLAGE OF DOUGLAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 10 – EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (CONTINUED)

Three year trend information as of December 31 (actuarial date) follows:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Annual pension cost	\$ 73,298	\$ 56,196	\$ 58,580
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -
Actuarial value of assets	\$ 1,113,392	\$ 1,002,843	\$ 910,246
Actuarial accrued liability	\$ 1,407,308	\$ 1,366,745	\$ 1,148,309
Unfunded AAL	\$ 293,916	\$ 363,902	\$ 238,063
Funded ratio	79%	73%	79%
Covered payroll	\$ 682,016	\$ 604,063	\$ 629,531
UAAL as a percentage of covered payroll	43%	60%	38%

NOTE 11 – DEFERRED COMPENSATION PLAN

The City Council offers all City employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. The assets of the plans are held in trust by a custodian, as described in IRC Section 457 (g), for the exclusive benefit of the participants and their beneficiaries, and the assets may not be diverted to any other use. The Administrators are agents of the employer for purposes of providing direction to the custodian for the investment of the assets held in the account, transfer of assets to or from the account, and all other matters. In accordance with the provisions of GASB Statement 32, plan balances and activities are not reflected in City's financial statements.

NOTE 12 – BUILDING DEPARTMENT

Revenues	
Inspections fees	\$ 95,252
Expenditures	
Contract labor	<u>84,883</u>
Excess of revenues over expenditures	\$ 10,369
Cumulative excess of revenues over expenditures June 30, 2005	<u>44,686</u>
Cumulative excess of revenues over expenditures June 30, 2006	<u>\$ 55,055</u>

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF THE VILLAGE OF DOUGLAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL -
GENERAL FUND
YEAR ENDED JUNE 30, 2006

	Original <u>Budget</u>	Final Amended <u>Budget</u>
REVENUES		
Taxes and special assessments	\$ 1,011,855	\$ 1,161,652
Licenses and permits	117,100	117,100
State shared revenues	107,259	82,259
Contributions from local units	436,548	436,548
Grant revenue	-	-
Charges for services	30,280	75,280
Fines	4,500	4,500
Interest	10,000	10,000
Reimbursements	-	-
Other revenue	-	-
	<u> </u>	<u> </u>
TOTAL REVENUES	\$ 1,717,542	\$ 1,887,339
EXPENDITURES		
Legislative	\$ 18,620	\$ 21,120
General government		
Manager	\$ 84,451	\$ 90,451
Clerk - treasurer	160,156	160,156
Assessor	25,500	25,500
Legal and accounting	54,000	40,000
Building and grounds	74,300	69,300
Contingencies	1,000	1,025
Insurance - bonds	23,520	19,520
	<u> </u>	<u> </u>
Total general government	\$ 422,927	\$ 405,952
Public safety		
Police	\$ 846,163	\$ 848,363
Planning and zoning	130,600	177,600
	<u> </u>	<u> </u>
Total public safety	\$ 976,763	\$ 1,025,963
Public works - highway and streets		
	\$ 220,855	\$ 81,358

<u>Actual</u>	Variance Favorable (Unfavorable)
\$ 1,166,885	\$ 5,233
123,742	6,642
111,229	28,970
421,494	(15,054)
8,439	8,439
139,086	63,806
5,637	1,137
35,687	25,687
1,668	1,668
<u>443</u>	<u>443</u>
 \$ 2,014,310	 \$ 126,971
 <u>\$ 19,760</u>	 <u>\$ 1,360</u>
 \$ 87,903	 \$ 2,548
165,872	(5,716)
27,225	(1,725)
50,375	(10,375)
67,491	1,809
1,125	(100)
<u>18,877</u>	<u>643</u>
 \$ 418,868	 \$ (12,916)
 \$ 804,074	 \$ 44,289
<u>169,190</u>	<u>8,410</u>
 \$ 973,264	 \$ 52,699
 \$ 79,301	 \$ 2,057

CITY OF THE VILLAGE OF DOUGLAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL -
GENERAL FUND (CONTINUED)
YEAR ENDED JUNE 30, 2006

	Original <u>Budget</u>	Final Amended <u>Budget</u>
EXPENDITURES (CONTINUED)		
Recreation and cultural		
Community relations	\$ 1,500	\$ 1,500
Parks and recreation	<u>63,200</u>	<u>76,300</u>
Total recreation and cultural	<u>\$ 64,700</u>	<u>\$ 77,800</u>
Debt service		
Principal	\$ 60,600	\$ 67,600
Interest	<u>23,400</u>	<u>23,400</u>
Total debt service	<u>\$ 84,000</u>	<u>\$ 91,000</u>
Capital outlay		
Parks and recreation	<u>\$ 10,000</u>	<u>\$ 10,000</u>
TOTAL EXPENDITURES	<u>\$ 1,797,865</u>	<u>\$ 1,713,193</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>\$ (80,323)</u>	<u>\$ 174,146</u>
OTHER FINANCING SOURCES (USES)		
Transfers in	\$ -	\$ -
Transfers out	<u>-</u>	<u>(25,865)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>\$ -</u>	<u>\$ (25,865)</u>
NET CHANGE IN FUND BALANCE	\$ (80,323)	\$ 148,281
FUND BALANCE - JULY 1, 2005	<u>414,774</u>	<u>414,774</u>
FUND BALANCE - JUNE 30, 2006	<u>\$ 334,451</u>	<u>\$ 563,055</u>

<u>Actual</u>	Variance Favorable (Unfavorable)
\$ 925	\$ 575
<u>93,518</u>	<u>(17,218)</u>
\$ 94,443	\$ (16,643)
\$ 48,885	\$ 18,715
<u>18,113</u>	<u>5,287</u>
\$ 66,998	\$ 24,002
\$ 17,404	\$ (7,404)
\$ 1,670,038	\$ 43,155
\$ 344,272	\$ 170,126
\$ 3,639	\$ 3,639
<u>(25,865)</u>	<u>-</u>
\$ (22,226)	\$ 3,639
\$ 322,046	\$ 173,765
<u>414,774</u>	<u>-</u>
<u>\$ 736,820</u>	<u>\$ 173,765</u>

CITY OF THE VILLAGE OF DOUGLAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL -
GENERAL HIGHWAY FUND
YEAR ENDED JUNE 30, 2006

	Original <u>Budget</u>	Final Amended <u>Budget</u>
REVENUES		
Taxes and special assessments	\$ 285,128	\$ 285,128
Interest	4,000	4,000
Reimbursements	<u>-</u>	<u>-</u>
TOTAL REVENUES	<u>\$ 289,128</u>	<u>\$ 289,128</u>
EXPENDITURES		
Public works		
Contractual engineering	<u>\$ 20,000</u>	<u>\$ 20,000</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>\$ 269,128</u>	<u>\$ 269,128</u>
OTHER FINANCING USES		
Transfers out	<u>\$ (500,000)</u>	<u>\$ (560,000)</u>
NET CHANGE IN FUND BALANCE	<u>\$ (230,872)</u>	<u>\$ (290,872)</u>
FUND BALANCE - JULY 1, 2005	<u>622,852</u>	<u>622,852</u>
FUND BALANCE - JUNE 30, 2006	<u>\$ 391,980</u>	<u>\$ 331,980</u>

CITY OF THE VILLAGE OF DOUGLAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL -
WATER AND SEWER REVOLVING FUND
YEAR ENDED JUNE 30, 2006

	Original Budget	Final Amended Budget
REVENUES		
Charges for services	\$ 30,000	\$ 30,000
Interest	100	100
Reimbursements	<u>-</u>	<u>-</u>
TOTAL REVENUES	<u>\$ 30,100</u>	<u>\$ 30,100</u>
EXPENDITURES		
Public works	\$ -	\$ -
Capital outlay	<u>-</u>	<u>-</u>
TOTAL EXPENDITURES	<u>\$ -</u>	<u>\$ -</u>
NET CHANGE IN FUND BALANCE	\$ 30,100	\$ 30,100
FUND BALANCE - JULY 1, 2005	<u>294,251</u>	<u>294,251</u>
FUND BALANCE - JUNE 30, 2006	<u>\$ 324,351</u>	<u>\$ 324,351</u>

<u>Actual</u>	Variance Favorable (Unfavorable)
\$ 96,465	\$ 66,465
12,021	11,921
<u>15,865</u>	<u>15,865</u>
 \$ 124,351	 \$ 94,251
 \$ 36,350	 \$ (36,350)
<u>325,421</u>	<u>(325,421)</u>
 \$ 361,771	 \$ (361,771)
 \$ (237,420)	 \$ (267,520)
<u>294,251</u>	<u>-</u>
 \$ 56,831	 \$ (267,520)

ADDITIONAL INFORMATION

CITY OF THE VILLAGE OF DOUGLAS
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2006

		<u>Special Revenue Funds</u>	
	<u>Major Streets</u>	<u>Local Streets</u>	<u>Douglas Historic Preservation</u>
ASSETS			
Cash and cash equivalents	\$ 57,722	\$ 30,315	\$ -
Receivables from other governments	12,904	6,391	-
Prepaid expenditures	<u>600</u>	<u>600</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 71,226</u>	<u>\$ 37,306</u>	<u>\$ -</u>
LIABILITIES			
Accounts payable and accrued expenses	\$ 6,233	\$ 5,158	\$ -
Deferred revenue	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL LIABILITIES	<u>\$ 6,233</u>	<u>\$ 5,158</u>	<u>\$ -</u>
FUND BALANCES			
Unreserved			
Undesignated	<u>\$ 64,993</u>	<u>\$ 32,148</u>	<u>\$ -</u>
TOTAL FUND BALANCES	<u>\$ 64,993</u>	<u>\$ 32,148</u>	<u>\$ -</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 71,226</u>	<u>\$ 37,306</u>	<u>\$ -</u>

<u>Schultz Park</u>	<u>DDA</u>	<u>Total Non-Major Funds</u>
\$ 27,352	\$ 31,299	\$ 146,688
-	-	19,295
-	2,024	3,224
<u>\$ 27,352</u>	<u>\$ 33,323</u>	<u>\$ 169,207</u>
\$ 79	\$ 9,235	\$ 20,705
-	75	75
<u>\$ 79</u>	<u>\$ 9,310</u>	<u>\$ 20,780</u>
<u>\$ 27,273</u>	<u>\$ 24,013</u>	<u>\$ 148,427</u>
<u>\$ 27,273</u>	<u>\$ 24,013</u>	<u>\$ 148,427</u>
<u>\$ 27,352</u>	<u>\$ 33,323</u>	<u>\$ 169,207</u>

CITY OF THE VILLAGE OF DOUGLAS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NON-MAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2006

	<u>Special Revenue Funds</u>		
	<u>Major Streets</u>	<u>Local Streets</u>	<u>Douglas Historic Preservation</u>
REVENUES			
State shared revenues	\$ 78,448	\$ 48,376	\$ -
Charges for services	-	-	-
Interest	3,613	2,752	189
Other revenue	-	-	9,390
	<u>-</u>	<u>-</u>	<u>9,390</u>
TOTAL REVENUES	<u>\$ 82,061</u>	<u>\$ 51,128</u>	<u>\$ 9,579</u>
EXPENDITURES			
Current operating			
Public works	\$ 78,422	\$ 195,746	\$ -
Recreation and cultural	-	-	17,411
Capital outlay	-	12,252	-
	<u>-</u>	<u>12,252</u>	<u>-</u>
TOTAL EXPENDITURES	<u>\$ 78,422</u>	<u>\$ 207,998</u>	<u>\$ 17,411</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>\$ 3,639</u>	<u>\$ (156,870)</u>	<u>\$ (7,832)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	\$ -	\$ 86,534	\$ -
Transfers out	(26,534)	-	(3,639)
	<u>(26,534)</u>	<u>-</u>	<u>(3,639)</u>
TOTAL OTHER FINANCING (SOURCES) USES	<u>\$ (26,534)</u>	<u>\$ 86,534</u>	<u>\$ (3,639)</u>
NET CHANGE IN FUND BALANCES	<u>\$ (22,895)</u>	<u>\$ (70,336)</u>	<u>\$ (11,471)</u>
FUND BALANCES - JULY 1, 2005	<u>87,888</u>	<u>102,484</u>	<u>11,471</u>
FUND BALANCES - JUNE 30, 2006	<u>\$ 64,993</u>	<u>\$ 32,148</u>	<u>\$ -</u>

<u>Schultz</u> <u>Park</u>	<u>DDA</u>	Total Non-Major Funds
\$ -	\$ -	\$ 126,824
8,030	4,925	12,955
976	1,431	8,961
<u>-</u>	<u>5,783</u>	<u>15,173</u>
<u>\$ 9,006</u>	<u>\$ 12,139</u>	<u>\$ 163,913</u>
\$ -	\$ -	\$ 274,168
1,267	21,046	39,724
<u>-</u>	<u>-</u>	<u>12,252</u>
<u>\$ 1,267</u>	<u>\$ 21,046</u>	<u>\$ 326,144</u>
<u>\$ 7,739</u>	<u>\$ (8,907)</u>	<u>\$ (162,231)</u>
\$ -	\$ -	\$ 86,534
<u>-</u>	<u>-</u>	<u>(30,173)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 56,361</u>
\$ 7,739	\$ (8,907)	\$ (105,870)
<u>19,534</u>	<u>32,920</u>	<u>254,297</u>
<u>\$ 27,273</u>	<u>\$ 24,013</u>	<u>\$ 148,427</u>

CITY OF THE VILLAGE OF DOUGLAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2006

<u>Description</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity's Identifying Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Housing and Urban Development:</u>			
Pass-through Programs from:			
Michigan Strategic Fund Community Development Block Grant Program	14.228	MSC 204018 EDIG	<u>\$620,000</u>
<u>U.S. Department of Transportation</u>			
Pass-through Program from:			
Michigan Department of Transportation Transportation Enhancement Activities Surface Transportation Program	20.205	05-5514	\$200,250
Michigan Office of Highway Safety Planning Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	20.601	AL-06-12	<u>8,776</u>
Total U.S. Department of Transportation			<u>\$209,026</u>
Total Federal Expenditures			<u>\$829,026</u>

Note A: BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant of the City of the Village of Douglas and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

October 5, 2006

City Council
City of the Village of Douglas
Douglas, Michigan

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

We have audited the basic financial statements of the City of the Village of Douglas as of and for the year ended June 30, 2006, as listed in the index, and have issued our report thereon dated October 5, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of the Village of Douglas' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgement, could adversely affect the City of the Village of Douglas' ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as item 2006-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable

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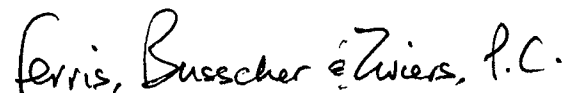
conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of the Village of Douglas' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City of the Village of Douglas in a separate letter dated October 5, 2006.

This report is intended solely for the information and use of the City Council, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



FERRIS, BUSSCHER & ZWIERS, P.C.
Certified Public Accountants
Holland, Michigan

October 5, 2006

City Council
City of the Village of Douglas
Douglas, Michigan

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

Compliance

We have audited the compliance of the City of the Village of Douglas with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. The City of the Village of Douglas' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of the Village of Douglas' management. Our responsibility is to express an opinion on the City of the Village of Douglas' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Village of the City of Douglas' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City of the Village of Douglas' compliance with those requirements.

In our opinion, the City of the Village of Douglas complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

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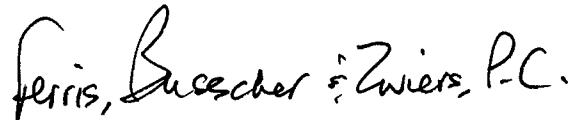
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Internal Control Over Compliance

The management of the City of the Village of Douglas is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of the Village of Douglas' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of City Council, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



FERRIS, BUSSCHER & ZWIERS, P.C.
Certified Public Accountants
Holland, Michigan

CITY OF THE VILLAGE OF DOUGLAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

SECTION 1 – SUMMARY OF AUDITORS' RESULTS

Financial Statements

- | | |
|---|-------------|
| 1. Type of auditors' report issued | Unqualified |
| 2. Internal control over financial reporting: | |
| a. Material weaknesses identified? | No |
| b. Reportable conditions identified not considered to be material weaknesses? | Yes |
| c. Noncompliance material to the financial statements noted? | No |

Federal Awards

- | | |
|---|-------------|
| 1. Internal control over major program: | |
| a. Material weaknesses identified? | No |
| b. Reportable conditions identified not considered to be material weaknesses? | No |
| 2. Type of auditors' report issued on compliance for major program: | |
| | Unqualified |
| 3. Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133, Section 510(a)? | |
| | No |

4. Identification of major program:

CFDA Number

Name of Federal Program

14.228

Community Development Block
Grant Program

- | | |
|---|-----------|
| 5. Dollar threshold used to distinguish between Type A and Type B programs: | \$300,000 |
| 6. Auditee qualified as a low-risk auditee under OMB Circular A-133, Section 530? | |
| | No |

CITY OF THE VILLAGE OF DOUGLAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2006

SECTION 2 – FINANCIAL STATEMENT FINDINGS

2006-1 Internal financial accounting

Condition: Unreconciled balance sheet accounts including cash, fund balance, accounts receivable and accounts payable for several months during the fiscal year.

Criteria: Internal controls should be in place that provide reasonable assurance that cash accounts are reconciled on a timely basis. Also, year end balance sheet accounts should be adjusted on the modified accrual basis of accounting for the fund level financial statements in accordance with generally accepted accounting principles for governmental units.

Effect: Because of the failure to reconcile cash and the various balance sheet accounts on a timely basis, there were unexplained fund balance adjustments, budget overages, and fund balance deficits.

Recommendations: Bank reconciliations should be performed by the City Treasurer monthly and reviewed by an independent person. Modified accrual accounts should be adjusted at year end for the fund level financial statements including: allocations of expenses between funds for shared projects, unbilled project retainages and change orders, and audit entries to properly state beginning fund balances. Balanced budgets should be maintained for the General Fund and all special revenue funds and amendments should be made prior to incurring costs above budgeted amounts.

SECTION 3 – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported

October 5, 2006

City Council
City of the Village of Douglas
Allegan County, Michigan

Council Members:

Thank you for the opportunity to be of service to you in performing an audit of the financial statements of City of the Village of Douglas for the year ended June 30, 2006.

In planning and performing our audit of the financial statements of the City of the Village of Douglas for the year ended June 30, 2006, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the City of the Village of Douglas' ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily disclose all matters that might be reportable conditions. In addition, because of inherent limitations in internal control, errors or fraud may occur and not be detected by such controls.

Reportable Condition

Internal financial accounting

The City's checking account remained unreconciled from July to February during the City's fiscal year. The new City Treasurer, Mark Rett, was able to take care of the monthly reconciliations when he began working for the City in February. We also noted that the June 30, 2006 bank reconciliation had several small outstanding checks that have not been followed up on as to the need for re-issuance or reporting unclaimed property to the State of Michigan. An independent reconciliation of cash is a key internal control over cash for the prevention of errors and the detection of fraud. We recommend that management oversee the internal control process over cash to ensure timely bank reconciliations are performed by City staff.

During the last three years, the City has had turnover in the accounting department on an annual basis. When the treasurer position changed mid-fiscal year, there were several accounts unreconciled and unadjusted. By the end of the fiscal year, there was an unsupported debit journal entry of approximately \$20,000 to fund balance. The reason for the adjustment and which expense accounts were affected was undeterminable by City staff. The City proposed and recorded an adjustment to correct fund balance and expensed the \$20,000 across the General Fund. Other bookkeeping adjustments recommended by our firm during the audit included additional accounts payable for retainages on projects, allocation of construction projects between funds, and additional accounts receivable for grants. We recommend that the City stabilize the accounting department procedures and staff in order to correctly account for the City's finances. Several of the issues in financial reporting are due to change in staff and lack of time to correct mispostings, budget overages, fund deficits, and unrecorded accruals.

Other Comments and Recommendations

Budget Violations

The City violated the Budget Act for the year ended June 30, 2006 by reporting unfavorable budget variances in the General Fund and several special revenue funds. In addition, the budget for the Water and Sewer Revolving special revenue fund did not include budgeted amounts for expenditures. The purpose of the Budget Act is to require that all local units of government in Michigan adopt balanced budgets, to establish responsibilities and define the procedure for the preparation, adoption and maintenance of the budget, and to require certain information for the budget process. This act specifically states that a local unit cannot expend resources without the appropriation by the legislative body. We recommend that management monitor and control expenditures of public monies by reviewing budget verses actual revenue and expenditure reports. If there are implications that expenditures will exceed the budget, the legislative body should adopt a resolution to amend the budget prior to the disbursement. The appropriations act is the key to controlling the finances of the City.

Fund Deficit

The City has an accumulated fund balance deficit in the Center Street Fund. The City is required to file a deficit elimination plan with the State of Michigan within ninety days of the fiscal year end. The City has not filed this plan as of the date of our report. The deficit was the result of completing and incurring the entire cost of the Center Street project by June 30, 2006.

The City has additional grant funding that it has requested; however, it was received beyond the sixty days after year end to record the receivable and revenue into the fiscal year ended. The City can remedy the deficit by collecting the additional grant revenue in the current fiscal year and transferring any additional funds needed from the General fund or the General Highway fund. We recommend that the City write the State of Michigan promptly to inform them of the plan to eliminate this fund balance deficit in the next fiscal year.

Local City Charter Discrepancy

The City's charter stipulates that the City's property taxes be levied on July 1 of each fiscal year. During the City's fiscal year, which was the first tax levy administered under the new City charter, the City allocated their millages between the July 1 and December 1 tax levies. This resulted in the late tax collection of the City's property taxes. The City did not,

however, exceed their approved millages between the two tax levies and complied with requisite truth in taxation notices and public hearings. We recommend that the City's next tax levy follow their City charter and levy the full millage on July 1.

Cash Management

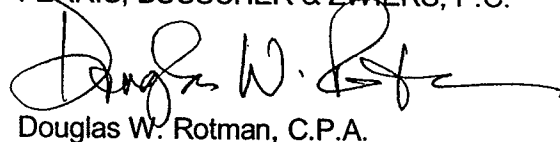
Cash management is crucial to the financial stability of the City and is to be monitored closely. One area of available cash for the Water and Sewer Revolving Fund are the monies held in trust by Kalamazoo Lake Water and Sewer Authority. The allocated costs of the Center Street water and sewer improvements caused this fund to borrow from both the General and Center Street Funds. Management should review the ending cash balances held with the Authority and make withdrawals as deemed necessary instead of borrowing from other funds.

Since the City does have funds with excess cash balances, we recommend that the City consider an investing policy to take advantage of higher yields investment opportunities.

This report is intended solely for the information and use of the City Council and management. If you have any questions regarding the financial statements or the above recommendations and suggestions, we would be pleased to discuss them with you.

Sincerely,

FERRIS, BUSSCHER & ZWIERS, P.C.

A handwritten signature in black ink, appearing to read "Douglas W. Rotman", with a stylized flourish at the end.

Douglas W. Rotman, C.P.A.

DWR:krc